144 FERC ¶ 61,097
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Jon Wellinghoff, Chairman;
Philip D. Moeller, John R. Norris,
Cheryl A. LaFleur, and Tony Clark.

Midwest Independent Transmission System Operator, Inc. — Docket No. ER13-536-000

ORDER ACCEPTING TARIFF AMENDMENTS

(Issued August 2, 2013)

1. On December 7, 2012, the Midwest Independent Transmission System Operator, Inc.[1] (MISO) filed proposed modifications to its Open Access Transmission, Energy and Operating Reserve Markets Tariff (Tariff) to expand the range of terms of Financial Transmission Rights (FTRs) offered in its monthly FTR auctions. In this order we accept the proposed modifications, to be effective on October 1, 2013, as requested.

I. Background

2. On August 6, 2004, the Commission conditionally accepted Tariff revisions creating a market-based congestion management program and energy markets in the MISO region. The revisions included Day-Ahead and Real-Time Energy Markets, locational marginal pricing, and a market for FTRs.[2] As part of that order, the Commission required MISO to submit a compliance filing that provided for monthly FTRs.[3]

3. On March 10, 2005, MISO proposed a multi-tiered procedure for allocating FTRs to Network Resources designated for at least one full season. The Commission accepted

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[1] Effective April 26, 2013, MISO changed its name from "Midwest Independent Transmission System Operator, Inc." to "Midcontinent Independent System Operator, Inc."

[2] *Midwest Indep. Transmission Sys. Operator, Inc.*, 108 FERC ¶ 61,163 (TEMT Order), *order on reh'g*, 109 FERC ¶ 61,157 (2004), *order on reh'g*, 111 FERC ¶ 61,043 (2005).

[3] TEMT Order, 108 FERC ¶ 61,163 at P 190.

MISO's proposal on seasonal FTRs, but required an evaluation and proposal concerning further flexibility in the allocation of FTRs to seasonal and other less-than-annual resource designations.[4] On February 7, 2006, the Commission rejected a proposal by MISO regarding the allocation of less-than-seasonal FTRs. The Commission required, among other items, that MISO submit an evaluation of alternative ways to accommodate monthly FTRs.[5]

4. On May 17, 2007, the Commission conditionally accepted MISO's proposal to implement long-term firm transmission rights (LTTRs)[6] in compliance with the requirements of Order No. 681.[7] The Commission subsequently ordered that in light of the LTTR Order, any further consideration of short-term FTRs would be addressed in the LTTR proceeding.[8]

5. On November 16, 2007, MISO filed in the LTTR proceeding an informational report that, among other things, noted that stakeholders planned to discuss in 2008 several planned FTR market enhancement initiatives. The initiatives included changes to the monthly FTR auctions and FTRs with terms of more than one month.[9]

II. <u>MISO's Filing</u>

6. In the instant filing, MISO proposes multi-period monthly FTR auctions that would allow market participants to trade FTRs for the next month, as well as future months and seasons within the planning year. In place of the current 12 monthly FTR

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[4] *Midwest Indep. Transmission Sys. Operator, Inc.*, 111 FERC ¶ 61,249, at P 30 (2005).

[5] *Midwest Indep. Transmission Sys. Operator, Inc.*, 114 FERC ¶ 61,117, at P 26 (2006).

[6] *Midwest Indep. Transmission Sys. Operator, Inc.*, 119 FERC ¶ 61,143 (2007) (LTTR Order).

[7] *Long-Term Firm Transmission Rights in Organized Electricity Markets*, Order No. 681, FERC Stats. & Regs. ¶ 31,226 (2006) (cross-referenced at 116 FERC ¶ 61,077 (2006)) (Order No. 681), *reh'g denied*, Order No. 681-A, 117 FERC ¶ 61,201 (2006).

[8] *Midwest Indep. Transmission Sys. Operator, Inc.*, 120 FERC ¶ 61,123, at PP 15-17 (2007).

[9] MISO November 16, 2007 informational report in Docket No. ER07-478-000, at 2, and Exhibit A thereto (slides 3 and 4 of Sept. 11, 2007 presentation to Market Subcommittee).

auctions, MISO proposes to hold 37 FTR auctions in a year including monthly, multi-month and seasonal auctions.

7. According to MISO, the multi-period auctions will provide market participants with more benefits and increased efficiency in the FTR market. MISO expects that the increase in the number of monthly FTR auctions will bring about an increase in FTR market participation, thereby increasing competition and improving price signals.[10]

8. MISO also expects that the proposed multi-period monthly FTR auctions will allow market participants to more quickly dispose of unneeded FTRs and adjust their FTR portfolios multiple times over the year, thereby reducing the risk and uncertainty associated with holding FTRs for an extended period. MISO expects that more opportunities to trade FTRs will aid price discovery and will provide more information that market participants can use to develop bidding strategies for future auctions. MISO anticipates that these benefits will result in increased efficiency in MISO's FTR market.[11] MISO indicates that it will provide stakeholders with an overall evaluation of funding twelve months after commencing the multi-period monthly FTR auctions and assess potential modifications at that time.[12]

9. MISO notes that it has discussed multi-period, monthly auction concepts with stakeholders for several years and that stakeholders have reviewed this proposal with 33 voting in favor, 17 against and 2 abstaining in a vote of the FTR Working Group.[13] MISO notes that the Commission has accepted a similar proposal submitted by PJM Interconnection L.L.C. (PJM).[14]

III. <u>Notice of Filing and Responsive Pleadings</u>

10. Notice of MISO's filing was published in the *Federal Register*, 77 Fed. Reg. 74653 (2012), with interventions and protests due on or before December 28, 2012. Alliant Energy Corporate Services, Inc., Consumers Energy Company, Edison Mission Energy, Exelon Corporation, Wisconsin Electric Power Company, and Xcel Energy Services, Inc., filed timely motions to intervene. American Municipal Power, Inc. (AMP) and Madison Gas and Electric Company and WPPI Energy (collectively, Midwest TDUs)

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[10] MISO Transmittal at 3-4.

[11] *Id*. at 5.

[12] *Id*. at 10.

[13] *Id*. at 6.

[14] *Id.* at n.16 (citing Letter Order, Docket No. ER06-105-000 (Dec. 14, 2005)).

filed timely motions to intervene and comments. Wisconsin Public Service Company and Upper Peninsula Power Company (collectively, Integrys Energy) filed a motion to intervene out-of-time. DC Energy Midwest, LLC (DC Energy) filed a motion to intervene out-of-time and comments. MISO filed an answer and Midwest TDUs filed a reply.

IV. Discussion

A. Procedural Matters

11. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2012), the timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

12. Pursuant to Rule 214(d) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214(d) (2012), the Commission will grant DC Energy's and Integrys Energy's unopposed motions to intervene out-of-time, given their interest in the proceeding, the early stage of the proceeding, and the absence of undue prejudice or delay.

13. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2012), prohibits an answer to a protest or answer unless otherwise ordered by the decisional authority. We will accept MISO's answer and Midwest TDUs' reply because they have provided information that assisted us in our decision-making process.

B. Substantive Matters

1. Comments, Answer and Reply

14. Midwest TDUs question how MISO's proposal will impact the funding of FTRs without excessive uplift charges. Midwest TDUs argue that MISO already has a record of failing to fully fund FTRs under the current monthly auction format. They argue that MISO's multi-period auctions may exacerbate the funding issue.[15]

15. In particular, Midwest TDUs claim that the multi-period auctions will result in awarding excessive FTRs since MISO will repeatedly make available the grid's full available capacity for the same month. To the extent FTRs are awarded for increases in model estimates of available capacity – without reclaiming capacity where the models show incremental decreases in availability – the result could be systematic overselling,

[15] Midwest TDUs Protest at 4-5.

according to Midwest TDUs. Midwest TDUs explain that systematic overselling the system leads to FTR funding shortfalls that, in turn, result in excessive uplift charges.[16]

16. Midwest TDUs recommend that the Commission delay authorization for the proposed multi-period monthly FTR auctions until MISO has demonstrated that current FTR funding shortfall problems have been brought under control.[17] Midwest TDUs contend that the Commission cannot conclude that conditions in October 2013 will reasonably support MISO's proposed expansion of the FTR monthly auction system, based on the existing record. For this reason, Midwest TDUs conclude that the Commission should reject the MISO proposal without prejudice to MISO re-filing after June 1, 2013 with updated information on monthly FTR shortfalls.

17. In the alternative, Midwest TDUs recommend that the Commission condition acceptance of the proposal on a requirement that MISO defer implementation until it has submitted an informational report demonstrating a period of at least six consecutive months with no significant FTR shortfall problems. To address their concerns, Midwest TDUs make several other recommendations as follows: (1) MISO should be directed to define expected available transmission capacity so that it refers to the level of FTRs that could be fully funded from day-ahead congestion revenues; (2) the full amount of expected available transmission capacity should only be made available in the final monthly FTR auction, and MISO should have discretion to incrementally allocate available FTR capacity over a series of monthly auctions; and (3) MISO should be required to file a report on FTR underfunding.

18. DC Energy supports MISO's proposal, stating that it significantly improves the hedging capability for customers and generation resources and increases the liquidity of the market, thereby improving price discovery. DC Energy notes that PJM's use of longer terms in FTR auctions has increased trading volumes and auction revenue. It also notes the Commission approved similar enhancements in ISO New England Inc.'s (ISO-NE) FTR market.[18]

19. AMP recommends that MISO make an informational filing not later than one year after the implementation of its proposal. According to AMP, the informational filing should evaluate the impact of the multi-period auctions on the level of participation in the FTR market and funding of FTRs.

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[16] *Id*. at 6.

[17] *Id.* at 5 and Attachment B.

[18] DC Energy Comments at 3 (citing Letter Order, Docket No. ER11-3568 (June 30, 2011), as revised by Letter Orders, Docket No. ER12-2122 (Aug. 23, 2012 and Sept. 13, 2012)).

20. In its answer, MISO states that Midwest TDUs' arguments should be rejected because they neither demonstrate underfunding of FTRs, nor substantiate a threat by multi-period monthly FTRs to funding of FTRs. According to MISO, when the year-to-date surplus in 2012 is taken into account, FTR funding for 2012 was 97.2 percent. MISO asserts that this level of funding does not show significant underfunding, as Midwest TDUs claim.[19] MISO also asserts that Midwest TDUs have not substantiated their position that the multi-period monthly FTR proposal will significantly increase FTR shortfalls; thus, this concern is speculative.[20] MISO further claims that its proposal can potentially improve FTR prices due to greater liquidity arising from increased trading opportunities and congestion hedging alternatives.[21]

21. With respect to Midwest TDUs' interest in limiting available transmission capacity availability in FTR auctions, MISO responds that stakeholders have discussed a similar issue and rejected it at a February 2, 2011 stakeholder meeting.[22]

22. MISO believes that its planned stakeholder report on the first year of implementation does not need to be submitted to the Commission. If the Commission so directs, MISO is willing to file the report as an informational compliance requirement.

23. In their reply, Midwest TDUs dispute MISO's claim that there is no significant FTR underfunding, noting that MISO's own FTR funding metrics indicate that FTR funding is a problem that requires monitoring and review. Midwest TDUs argue that the MISO reference to 97.2 percent FTR funding is misleading since it applies to the 2012 calendar year and that the more relevant FTR funding statistic is 94.1 percent that applies to the current planning year-to-date.[23]

24. Midwest TDUs also assert that MISO has provided no evidence to support its statement that increasing the number of times FTRs for a given month can be transacted will result in prices that more closely approximate the actual value of FTRs. Midwest TDUs expect that making FTR purchases more attractive would increase the award of FTRs and thus reduce – not improve – funding.[24] Finally, Midwest TDUs fault MISO for

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[19] MISO Answer at 5.

[20] *Id*.

[21] *Id*.

[22] *Id*. at 6.

[23] Midwest TDUs Reply at 3-7.

[24] *Id*. at 7-8.

citing to a stakeholder vote that did not involve multi-period monthly FTR auctions as proof that stakeholders rejected a similar proposal.[25]

2. Commission Determination

25. We find MISO's proposal for multi-period monthly auctions to be just and reasonable. By MISO expanding the range of terms for FTRs in its auctions, market participants in MISO benefit by having more options to hedge congestion costs, as compared to the current one-month ahead FTR auction. This proposal, as noted by MISO and DC Energy, is similar to multi-month FTR auctions that the Commission accepted in PJM[26] and ISO-NE.[27] We will accept it in this proceeding as well.

26. We will not delay implementation of the proposal. Contrary to Midwest TDUs' claims, we do not find a chronic pattern of underfunding of FTRs in MISO. Nor do we find a link between the frequency of the FTR auctions and the funding of FTRs.

27. Rather, data from the MISO FTR markets in 2010, 2011 and 2012 show evidence of both overfunding and underfunding during this time period.[28] This evidence reflects the fact that FTR funding is impacted by many factors including outages, loop flows, and model revisions. While the frequency of MISO's auction period may have some impact on the funding, we have no basis to find that this factor alone will have a significant or harmful impact on the FTR market. However, to the extent that funding issues arise,

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[25] *Id*. at 9.

[26] Letter Order, Docket No. ER06-105-000 (Dec. 14, 2005).

[27] Letter Order, Docket No. ER11-3568 (June 30, 2011)), as revised by Letter Orders, Docket No. ER12-2122 (Aug. 23, 2012 and Sept. 13, 2012).

[28] MISO's FTR obligations were under-funded by $55.0 million in 2010 and over-funded by $26.7 million in 2011. The spring quarter of 2012 was over-funded by $4.1 million. *See* Potomac Economics, 2011 State of the Market Report for the MISO Electricity Markets, at 40, *available at* https://www.midwestiso.org/Library/Repository/Report/IMM/2011%20State%20of%20the%20Market%20Report.pdf; Potomac Economics, Independent Market Monitor Quarterly Report: Spring 2012, at 39, *available at:* https://www.midwestiso.org/Library/Repository/Report/IMM/2012 IMM Quarterly Report Spring.pdf. FTR obligations were underfunded by approximately $37 million over the June – November 2012 period. *See* Midwest TDUs Protest at 5 (citing data from the MISO Excess Congestion Fund Report).

MISO's ongoing analysis of FTR funding should address those issues in a timely manner.[29]

28. We also will not require MISO to withhold available FTRs from the auctions until the last month, as Midwest TDUs recommend. We agree with MISO that Midwest TDUs have not substantiated their position that the multi-period monthly FTR proposal will significantly increase FTR shortfalls. Nor has any information been presented to the contrary.

29. We also will not direct MISO to define expected available transmission capacity so that it refers to the level of FTRs that could be fully funded from day-ahead congestion revenues. Since revenues are not known until after the fact and they are impacted by a wide range of factors, including outages and loop flows, it is not possible to estimate full-funding accurately. We consider MISO's current process of estimating available capacity based on its ongoing market analysis, as detailed in the market report information submitted by MISO and Midwest TDUs,[30] to be reasonable.

30. Finally, we see no need for informational reports. Based on information submitted by MISO and Midwest TDUs in this proceeding, we believe MISO is addressing FTR funding issues promptly and apprising stakeholders on a monthly basis. We consider this process to be sufficient and therefore there is no need for additional reports to the Commission.

The Commission orders:

MISO's proposed revisions are hereby accepted, to be effective on October 1, 2013.

By the Commission.

(S E A L)

Kimberly D. Bose,
Secretary.

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[29] 2011 State of the Market Report, at 40 ("The full funding of FTR obligations was due to several modeling and procedural improvements made by MISO in 2010. MISO continued to make procedural improvements in 2011, including better procedures for modeling planned and forced transmission outages, as well as more complete modeling of lower voltage branches of the network in the FTR market.").

[30] MISO Answer at 4-5 and Midwest TDUs Reply, Appendix 3.